

AUDITING PROCEDURES REPORT

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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY	County IOSCO
Audit Date 06/30/2004	Opinion Date 08/12/2004	Date Accountant Report Submitted to State: 11/12/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

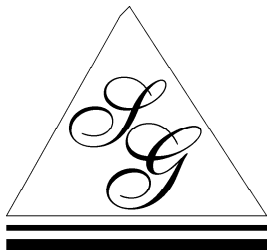
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature 		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.08.12 09:29:29 -0500 Reason: I am approving this document	



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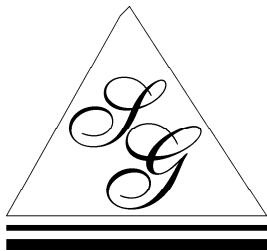
Herman A Bertuleit, CPA

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2004

AUDITORS' REPORT

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August 12, 2004

Independent Auditors' Report

Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency, Iosco County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Agency's basic financial statements, as listed in the index. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2004, on our consideration of Iosco Regional Education Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the Agency has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic financial Statements -and Management's Discussion and Analysis -for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Iosco Regional Educational Service Agency's basic financial statements. The individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.



IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY

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As management of the Iosco Regional Educational Service Agency, (the Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2004.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the school agency's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Agency's revenues and expenditures by program for the General Fund, Special Education Fund, Vocational Education Fund, and Capital Project Fund. Comparative information will be provided in future years when prior year information is available.

FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The overall condition of all funds and governmental activities is positive for the Agency.

The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$2,090,921 (net assets). Of this amount, \$267,349 (unrestricted net assets) may be used to meet the Agency's ongoing obligations to taxpayers, students and creditors.

The Agency's total net assets increased by \$71,883. This represents the degree to which increases in ongoing revenues have surpassed similar increases in ongoing expenses.

As of the close of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$904,015, an increase of \$194,626 in comparison with the prior year. Of this amount, \$875,087 is available for spending at the Agency's discretion (unreserved fund balance). This represents 18% of the total expenditures of these funds.

USING THIS ANNUAL REPORT

This discussion and analysis are intended to serve as an introduction to the Iosco Regional Educational Service Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

Both of the government-wide financial statements distinguish functions of the Iosco Regional Educational Service Agency that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Agency include instruction, support services, transfers to other districts, and community services. The Agency does not currently have any business-type activities.

The government-wide financial statements can be found in Exhibits A and B of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds of the Agency can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The Agency does not currently have any proprietary funds or fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Agency's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the general fund, special education fund and vocational education fund which are considered to be major funds.

The Agency adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the general fund, special education fund and vocational education fund to demonstrate compliance with budgets.

The basic governmental fund financial statements can be found in Exhibits C and E of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in Exhibit G of this report.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Agency's major funds. Required supplementary information can be found in Exhibits H, I and J of this report.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplementary Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT -WIDE FINANCIAL ANALYSIS

The Agency's net assets were \$2,090,921 at June 30, 2004. Of this amount, \$267,349 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Agency's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the Agency's governmental activities.

TABLE 1
NET ASSETS
JUNE 30

	<u>Governmental Activities</u>
Current Assets	\$ 1,760,497
Noncurrent Assets	<u>4,000,418</u>
Total Assets	<u>5,760,915</u>
Current Liabilities	856,482
Noncurrent Liabilities	<u>2,813,512</u>
Total Liabilities	<u>3,669,994</u>
<u>Net Assets</u>	
Invested in Capital Assets – Net of Debt	1,290,397
Restricted	533,175
Unrestricted	<u>267,349</u>
Total Net Assets	<u>\$ 2,090,921</u>

The \$267,349 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example), we would have \$267,349 left.

A comparison of prior year net assets and change in net assets will not be available this year with the change to GASB 34 governmental wide accounting format. The Agency's net assets were \$2,090,921 at June 30, 2004. Capital assets, net of debt totaled \$1,290,397. The debt of the Agency will be paid for by property tax collected as the debt service comes due. Day to day operations will be paid for by property tax, state aid and federal revenues that will be received throughout the year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Agency's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$267,349 is unrestricted.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

TABLE 2
CHANGES IN NET ASSETS
YEAR ENDED JUNE 30

	<u>Governmental Activities</u>
Revenues:	
Program Revenues:	
Charges for Services	\$ 584,399
Operating Grants and Contributions	2,917,033
Capital Grants	37,343
General Revenues:	
Current Property Taxes	1,053,193
State School Aid – Unrestricted	343,789
Unrestricted Contributions	22,933
Investment Earnings	6,230
Miscellaneous	<u>48,400</u>
Total Revenues	<u>5,013,320</u>
Functions/Program Expenses:	
Instruction	1,826,366
Supporting Services	2,156,638
Transfers to Locals	385,016
Community Services	89,128
Interest and Fiscal Charges	138,685
Unallocated Depreciation	<u>345,604</u>
Total Functions/Program Expenses	<u>4,941,437</u>
Increase in Net Assets	<u>\$ 71,883</u>

Governmental activities increased the Agency's net assets by \$71,883.

As reported in our Statement of Activities in Exhibit B, the cost of all of our governmental activities this year was \$4,941,437 . However, the amount that our taxpayers ultimately financed for these activities through Agency taxes was only \$1,053,193 because some of the cost was paid by those who benefited from the programs (\$584,399), by other governments and organizations who subsidized certain programs with grants and contributions (\$2,954,376) through unrestricted state aid (\$343,789) , and by miscellaneous sources (\$54,630).

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The Agency's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Fund, Special Education Fund and the Vocational Education Fund.

During the fiscal year ended June 30, 2004, the Agency amended the budgets of these major governmental funds a couple of times, none significantly.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

General Fund

The General Fund actual revenue was \$1,143,308 . That amount is above the original budget estimates of \$902,202 and the final amended budget of \$1,123,115 . The variance between the actual revenues, the original budget, and the final budget was the result of overestimating cuts from government sources .

The actual expenditures of the General Fund were \$1,024,705 , which is above the original budget estimates of \$902,202 and below the final amended budget of \$1,101,056 . The variance between the actual expenditures, the original budget, and final budget was due to a spending freeze in anticipation of revenue cuts .

The General Fund had total revenues of \$1,143,308 and total expenditures of \$1,024,705 with an ending fund balance of \$370,840 .

Vocational Education Fund

The Vocational Education Fund actual revenue was \$1,036,461 . That amount is below the original budget estimates of \$1,089,033 and above the final amended budget of \$1,007,442 . The variance between the actual revenues, the original budget, and the final budget was the result of overestimating cuts from government sources .

The actual expenditures of the Vocational Education Fund were \$1,091,240 , which is above the original budget estimates of \$1,089,033 and final amended budget of \$1,026,621 . The variance between the actual expenditures, the original budget, and final budget was due to unanticipated expenses at year end .

The Vocational Education Fund had total revenues of \$1,036,461 and total expenditures of \$1,091,240 with an ending fund balance of \$150,178 .

Special Education Fund

The Special Education Fund actual revenue was \$2,833,502 . That amount is below the original budget estimates of \$2,872,718 and above the final amended budget of \$2,828,806 . The variance between the actual revenues, the original budget, and the final budget was the result of overestimating cuts from government sources .

The actual expenditures of the Special Education Fund were \$2,768,249 , which is below the original budget estimates of \$2,902,160 and final amended budget of \$2,822,250 . The variance between the actual expenditures, the original budget, and final budget was due to a budget freeze in anticipation of revenue cuts .

The Special Education Fund had total revenues of \$2,833,502 and total expenditures of \$2,768,249 with an ending fund balance of \$354,069 .

TOTAL REVENUES

The total revenues of the Agency were \$5,013,320 . Of the total revenues, \$100% were generated by governmental activities .

Program specific revenues in the form of charges for services, grants and contributions accounted for \$3,538,775 or 71% of total revenues of \$5,013,320 .

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$4,884,194. The governmental funds had a net gain in fund balance of \$194,626. The ending fund balance for all governmental funds was \$904,015 which represents 18% of current year expenditures. The ending fund balance percentage for the prior year represented 13% of last year's expenditures. This fund balance will be used to help reduce the amount of financing needed for the first six months of the school year as well as providing a contingency for unexpected expenditures and revenue cuts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the Agency had \$4,954,812 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$954,394 in depreciation has been taken over the years. We currently have a net book value of \$4,000,418. Total additions for the year were \$121,844. Major additions included two 2001 busses totaling \$65,500 and \$56,344 for a polycom unit, Immersive Engineering software, Ice blocks for the roof and a 1996 International truck.

Long-Term Debt

At June 30, 2004, the Agency had \$2,710,021 in bonds and notes outstanding of which \$238,574 represent general obligation bonds of the Agency.

State statutes limit the amount of general obligation debt that a school district may issue. The current debt limitation for the Agency is significantly greater than the outstanding debt of the Agency.

Additional information on the Agency's long-term debt can be found in Note 7 on pages 24-26 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan is slowing significantly. The current State of Michigan revenue estimates have declined to the point that 2004-2005 funding is uncertain. These factors were considered in preparing the Agency's budgets for the 2004-2005 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Iosco Regional Educational Service Agency's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Ron Stec
Business Manager
Iosco Regional Educational Service Agency
27 N. Rempert Road
Tawas City, MI 48763
Office Telephone (989) 362-3006

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF NET ASSETS
June 30, 2004

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents (Note 3)	\$ 1,342,687
Receivables:	
State of Michigan (Note 4)	392,714
Other	1,692
Due from local units	23,404
Capital assets - net (Note 5)	<u>4,000,418</u>
 Total Assets	 <u>5,760,915</u>
<u>Liabilities</u>	
Accounts payable	33,061
Salaries payable	112,159
Interest payable	4,787
Due to other governmental units	95,019
State aid anticipation note payable (Note 6)	540,000
Deferred revenue (Note 9)	71,456
Long-term liabilities:	
Due within one year (Note 7)	178,891
Due in more than one year	<u>2,634,621</u>
 Total Liabilities	 <u>3,669,994</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	1,290,397
Restricted for:	
Vocational Education	150,178
Special Education	354,069
Capital Projects	28,928
Unrestricted	<u>267,349</u>
 Total Net Assets	 <u>\$ 2,090,921</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

		Program Revenues			Net (Expenses) Revenue and Change in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants	Government Type Activities
Instruction	\$ 1,826,366	\$ 505,391	\$ 1,311,394	\$ 0	\$ (9,581)
Supporting services	2,156,638	79,008	1,134,636	37,343	(905,651)
Transfers to local districts	385,016	0	381,945	0	(3,071)
Community services	89,128	0	89,058	0	(70)
Interest and fiscal charges	138,685	0	0	0	(138,685)
Unallocated depreciation	<u>345,604</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(345,604)</u>
Total	<u>\$ 4,941,437</u>	<u>\$ 584,399</u>	<u>\$ 2,917,033</u>	<u>\$ 37,343</u>	<u>(1,402,662)</u>
General purpose revenue:					
Current property taxes					1,053,193
State school aid - unrestricted					343,789
Unrestricted contributions					22,933
Investment earnings					6,230
Miscellaneous					<u>48,400</u>
Total general purpose revenue					<u>1,474,545</u>
Change in net assets					71,883
Net assets - beginning					<u>2,019,038</u>
Net assets - ending					<u>\$ 2,090,921</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
June 30, 2004

	General Fund	Vocational Education Fund	Special Education Fund	Other Governmental Fund Capital Project Fund	Total Governmental Funds
<u>ASSETS</u>					
Cash and cash equivalents (Note 2)	\$ 270,105	\$ 0	\$ 1,066,055	\$ 6,527	\$ 1,342,687
Receivables:					
Other	1,692	0	0	0	1,692
Due from local units	16,614	3,693	3,097	0	23,404
Due from state	111,193	28,902	252,619	0	392,714
Due from other funds (Note 8)	<u>217,810</u>	<u>479,950</u>	<u>8,090</u>	<u>30,491</u>	<u>736,341</u>
Total Assets	<u>\$ 617,414</u>	<u>\$ 512,545</u>	<u>\$ 1,329,861</u>	<u>\$ 37,018</u>	<u>\$ 2,496,838</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accounts payable	\$ 10,204	\$ 12,973	\$ 9,884	\$ 0	\$ 33,061
Salaries payable	4,965	37,588	69,606	0	112,159
Interest payable	0	1,507	3,280	0	4,787
Due to other funds (Note 8)	208,657	0	519,594	8,090	736,341
Due to other governmental units	13,435	78,156	3,428	0	95,019
Tax anticipation note payable (Note 6)	0	170,000	370,000	0	540,000
Deferred revenue (Note 9)	<u>9,313</u>	<u>62,143</u>	<u>0</u>	<u>0</u>	<u>71,456</u>
Total liabilities	<u>246,574</u>	<u>362,367</u>	<u>975,792</u>	<u>8,090</u>	<u>1,592,823</u>
<u>Fund Equity</u>					
Fund balances:					
Reserved:					
Capital projects fund	0	0	0	28,928	28,928
Unreserved, reported in:					
General fund	370,840	0	0	0	370,840
Vocational Education fund	0	150,178	0	0	150,178
Special Education fund	<u>0</u>	<u>0</u>	<u>354,069</u>	<u>0</u>	<u>354,069</u>
Total fund equity	<u>370,840</u>	<u>150,178</u>	<u>354,069</u>	<u>28,928</u>	<u>904,015</u>
Total Liabilities and Fund Equity	<u>\$ 617,414</u>	<u>\$ 512,545</u>	<u>\$ 1,329,861</u>	<u>\$ 37,018</u>	<u>\$ 2,496,838</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2004

Total governmental fund balances: \$ 904,015

Amounts reported for governmental activities in the statement of
 net assets are different because:

Capital assets used in governmental activities are not financial resources
 and, therefore, are not reported as assets in governmental funds. Capital
 assets at year-end consist of:

Capital asset cost	\$ 4,954,812	
Capital asset accumulated depreciation	<u>(954,394)</u>	
		4,000,418

Long-term liabilities, including bonds payable, are not due and payable
 in the current period and, therefore, are not reported as liabilities in
 the governmental funds. Long-term liabilities at year end consist of:

Bonds payable	(238,574)	
Notes payable	(2,471,447)	
Compensated absences payable	<u>(103,491)</u>	
Total long-term liabilities		<u>(2,813,512)</u>

Total net assets - governmental activities		\$ <u>2,090,921</u>
--	--	---------------------

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	General Fund	Vocational Education Fund	Special Education Fund	Other Governmental Fund Capital Project Fund	Total Governmental Funds
<u>Revenue</u>					
Local sources:					
Taxes	\$ 263,301	\$ 0	\$ 789,892	\$ 0	\$ 1,053,193
Other	118,754	654,334	270,059	49	1,043,196
State sources	546,089	200,907	538,284	0	1,285,280
Federal sources	215,164	181,220	1,235,267	0	1,631,651
Total revenue	<u>1,143,308</u>	<u>1,036,461</u>	<u>2,833,502</u>	<u>49</u>	<u>5,013,320</u>
<u>Expenditures</u>					
Current:					
Instruction	3,842	671,555	1,149,882	0	1,825,279
Supporting services	932,121	167,325	1,045,957	0	2,145,403
Community services	0	0	89,128	0	89,128
Transfers to local districts	9,900	78,157	296,959	0	385,016
Debt Service:					
Principal retirement	19,104	88,200	71,535	0	178,839
Interest and fiscal charges	15,076	77,571	43,909	0	136,556
Bond issuance costs	0	670	1,459	0	2,129
Capital outlay	<u>44,662</u>	<u>7,762</u>	<u>69,420</u>	<u>0</u>	<u>121,844</u>
Total expenditures	<u>1,024,705</u>	<u>1,091,240</u>	<u>2,768,249</u>	<u>0</u>	<u>4,884,194</u>
Excess of revenue over (under) expenditures	<u>118,603</u>	<u>(54,779)</u>	<u>65,253</u>	<u>49</u>	<u>129,126</u>
<u>Other Financing Sources</u>					
Loan proceeds	<u>0</u>	<u>0</u>	<u>65,500</u>	<u>0</u>	<u>65,500</u>
Excess of revenue and other sources over (under) expenditures	118,603	(54,779)	130,753	49	194,626
Fund balances - beginning of year	<u>252,237</u>	<u>204,957</u>	<u>223,316</u>	<u>28,879</u>	<u>709,389</u>
Fund balances - end of year	<u>\$ 370,840</u>	<u>\$ 150,178</u>	<u>\$ 354,069</u>	<u>\$ 28,928</u>	<u>\$ 904,015</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Total net change in fund balances - governmental funds		\$ 194,626
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Current year depreciation expense	\$ (345,604)	
Capital outlays reported in the governmental funds	<u>121,844</u>	
Net difference		(223,760)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.		178,839
Proceeds from notes are a revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets. This is the amount of proceeds reported as revenues in the governmental funds.		(65,500)
Net change in accrued compensated absences:		
Accrued compensated absences June 30, 2003	91,169	
Accrued compensated absences June 30, 2004	<u>(103,491)</u>	
		<u>(12,322)</u>
Change in net assets of governmental activities		<u>\$ 71,883</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Iosco Regional Educational Service Agency (Agency) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The Agency is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

Iosco Regional Educational Service Agency provides special education services to students in Iosco County, Michigan and parts of the counties of Alcona, Arenac and Ogemaw. The Agency operates under an elected Board of Education (5 members) represented by members elected by delegates from local agencies in the Iosco Regional Educational Service Agency's service area. The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The Agency also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Iosco Regional Educational Service Agency's Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Iosco Regional Educational Service Agency. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The Agency uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Agency functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Agency are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Agency's major governmental funds:

General Fund - The General Fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund.

Vocational Education Fund - The Vocational Education Fund is used to account for all financial resources allocated for vocational education instruction and related supporting services within the Agency.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Special Education Fund - The Special Education Fund is used to account for all financial resources allocated for special education instruction and related supporting services within the Agency.

The other governmental fund of the Agency account for grants and other resources whose use is restricted for a particular purpose and the acquisition or construction of major capital facilities.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Agency as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Agency that are governmental and those that are considered business-type activities. The Agency does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Agency's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Agency, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Agency.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

Fund Financial Statements:

Fund financial statements report detailed information about the Agency. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The nonmajor fund is in a single column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Agency, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Agency receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Agency must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Agency on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Agency are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From State of Michigan

This represents amounts receivable from the State of Michigan for federal and state reimbursable programs.

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Agency does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

I. Compensated Absences

The Agency reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the Agency's termination policy.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. The amount of accumulated sick and vacation pay liability for Iosco Regional Educational Service Agency was \$103,491, of which none is current.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Agency or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

L. Property Taxes

The Agency levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the Agency through February. The delinquent real property taxes of the Agency are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the Agency for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

M. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to Agency's based on information supplied by the Agency. For the year ended June 30, 2004, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2003.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2003 - August, 2004. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

N. State Categorical Revenue

The Agency also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

O. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2004.

Q. Economic Dependency

The Agency received approximately 49% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the Agency, the Agency is considered to be economically dependent.

R. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

S. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General, Special Revenue, Vocational Education and Special Education Funds and an informational study for Capital Project Funds of Agency prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Iosco Regional Educational Service Agency follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Agency's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

For 2004, the Agency has implemented Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; Number 34, "Basic Financial Statements -and Management's Discussion and Analysis-for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the Agency's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The government-wide financial statements split the Agency's programs between governmental activities and business-type activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2004, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Agency's deposits and investments were reported in the basic financial statements in the following categories:

Cash and cash equivalents	<u>\$ 1,342,687</u>
---------------------------	---------------------

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	\$ 227,144
Investments in Securities and Similar Vehicles	1,115,443
Petty Cash and Cash on Hand	<u>100</u>
Total	<u>\$ 1,342,687</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits:

Deposits are carried at cost. Deposits of the Agency are held at Independent Bank in the name of the Agency. At June 30, 2004, the carrying amounts of the Agency's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 173,024	\$ 173,024
Uninsured – uncollateralized	<u>54,120</u>	<u>208,075</u>
Total primary government	<u>\$ 227,144</u>	<u>\$ 381,099</u>

Investments:

The Agency is authorized through Board resolution and by the State of Michigan Public Act 451 of 1976 as amended to invest in the following:

Bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Agency is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, mutual funds composed of investments as outlined above, and investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Investments are categorized into these three categories of credit risk.

1. Insured or registered with securities held by the entity or by its agent in the entity's name.
2. Uninsured and unregistered investments for which the securities are held by the broker or broker's trust department or agent in the entity's name.
3. Uninsured and unregistered investments for which the securities are held by the broker or broker's trust department or agent but not in the entity's name.

At June 30, 2004, the Agency's investments consisted entirely of municipal investment pools, which are not required to be categorized with a carrying amount and market value of \$1,115,443.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>Governmental Activities</u>	<u>Amount</u>
State Aid	\$ 253,797
Federal Grants	<u>138,917</u>
Total Governmental Activities	<u>\$ 392,714</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
<u>Governmental Activities</u>				
Land	\$ 266,900	\$ 0	\$ 0	\$ 266,900
Buildings and improvements	2,980,831	13,200	0	2,994,031
Furniture, fixtures and equipment	1,112,131	26,994	0	1,139,125
Vehicles and buses	<u>473,106</u>	<u>81,650</u>	<u>0</u>	<u>554,756</u>
Totals at historical cost	<u>4,832,968</u>	<u>121,844</u>	<u>0</u>	<u>4,954,812</u>
Less: Accumulated Depreciation				
Buildings and improvements	(69,944)	(66,364)	0	(136,308)
Furniture, fixtures and equipment	(271,388)	(210,340)	0	(481,728)
Vehicles and buses	<u>(267,458)</u>	<u>(68,900)</u>	<u>0</u>	<u>(336,358)</u>
Total accumulated depreciation	<u>(608,790)</u>	<u>(345,604)</u>	<u>0</u>	<u>(954,394)</u>
Governmental Activities Capital Assets-Net	<u>\$ 4,224,178</u>	<u>\$ (223,760)</u>	<u>\$ 0</u>	<u>\$ 4,000,418</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 6 - SHORT-TERM DEBT

The Agency has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The following is a summary of the short-term financing:

	<u>July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2004</u>
State Aid Anticipation Note	<u>\$ 0</u>	<u>\$ 540,000</u>	<u>\$ 0</u>	<u>\$ 540,000</u>

The State Aid Anticipation Note was acquired to help cover Agency operations for fiscal year 2004. The note is dated August 20, 2003, bears interest at 1.03% and will be due for payment on August 20, 2004.

NOTE 7 - LONG-TERM LIABILITIES

<u>A. Notes Payable</u>	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest on Note</u>	<u>Total Obligation</u>
Building and Equipment Note:				
B & B General Contracting, Inc. Subsequently assigned to Comerica Securities, Inc. The note dated June 26, 2001 which bears interest at 5.1%, is due annually each August 15 through 2015. Interest is due semi-annually on February 15 and August 15 of each year.				
	2001	\$ 1,910,000	\$ 546,465	\$ 2,456,465
Building and Equipment Note:				
B & B General Contracting, Inc. Subsequently assigned to Comerica Securities, Inc. The note dated April 11, 2002 which bears interest at 5.625%, is due annually each August 15, beginning 2011 through 2014. Interest is due semi-annually on February 15 and August 15 of each year.				
	2002	500,000	255,938	755,938
Vehicle Note:				
Dean Arbor Chevrolet, Inc. Subsequently assigned to GMAC Bank. The note dated December 17, 2002 is payable in monthly installments of \$340, including interest at 4.9%, through 2006.				
	2003	9,245	574	9,819

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

<u>A. Notes Payable (Continued)</u>	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest on Note</u>	<u>Total Obligation</u>
Vehicle Note:				
William Look & Sons, Inc. Subsequently assigned to Independent Bank. The note dated July 3, 2002 is payable in monthly installments of \$521, including interest at 4.5%, through 2005.	2003	\$ 6,098	\$ 149	\$ 6,247
Hoekstra Transportation Inc. Subsequently assigned to Independent Bank. The note dated August 7, 2003 is payable in monthly installments of \$1,907, including interest at 3.05%, through 2006.	2004	46,104	1,563	47,667
		<u>\$ 2,471,447</u>	<u>\$ 804,689</u>	<u>\$ 3,276,136</u>

B. Bonds Payable

School Improvement Bonds:

The bonds dated November 24, 1998 which bear interest from 4.76% to 8% are due serially each May 15 through 2013

1998	<u>\$ 238,574</u>	<u>\$ 68,735</u>	<u>\$ 307,309</u>
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The annual principal and interest requirements for long-term debt for the years after June 30, 2004 are as follows:

	<u>Government Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 178,891	\$ 123,259	\$ 302,150
2006	204,858	122,651	327,509
2007	224,706	111,953	336,659
2008	219,838	100,811	320,649
2009	288,226	119,750	407,976
2010-2014	1,153,502	273,214	1,426,716
2015-2019	<u>440,000</u>	<u>21,788</u>	<u>461,788</u>
Total	<u>\$ 2,710,021</u>	<u>\$ 873,426</u>	<u>\$ 3,583,447</u>

The annual State of Michigan appropriation, through the State Aid payments, is the only revenue source for making the annual debt service payment on the above bonds. If the legislature fails to appropriate the funds, the Agency is under no obligation for payment. The Michigan Municipal Bond Authority has determined that certain payments of principal and interest which are due May 15, 2005 shall be deferred until a later date. In all other respects the bond continues in full force and effect in accordance with its terms.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

C. Compensated Absences

The Agency has an employee benefit plan that allows employees to accumulate an unlimited amount of sick and vacation pay days based upon contractual agreements. Certified and support staff are paid at \$35 per day; administrative employees are paid for ½ of their accumulated time not to exceed 60 days; and the superintendent is paid up to 120 days at \$50 per day. The amount of accumulated sick and vacation pay liability for Iosco Regional Educational Service Agency was \$103,491 at June 30, 2004, of which \$0 was the estimated current portion.

D. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the Agency for the year ended June 30, 2004:

<u>Governmental Activities</u>	<u>Balance July 1, 2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2004</u>	<u>Amount Due in One Year</u>
Notes payable	\$ 2,584,786	\$ 65,500	\$ 178,839	\$ 2,471,447	\$ 178,891
Bonds payable	238,574	0	0	238,574	0
Compensated absences	<u>91,169</u>	<u>12,322*</u>	<u>0</u>	<u>103,491</u>	<u>0</u>
Total Long-Term Liabilities	<u>\$ 2,914,529</u>	<u>\$ 77,822</u>	<u>\$ 178,839</u>	<u>\$ 2,813,512</u>	<u>\$ 178,891</u>

The payment dates of compensated absences payable are undeterminable.

The interest expenditures on long-term obligations for the year were \$136,556.

*Represents net of additions and retirements for the year.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables for individual funds as of June 30, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 217,810	Special Education Fund	\$ 217,810
Special Education Fund	8,090	Capital Project Fund	8,090
Vocational Education Fund	178,166	General Fund	178,166
Vocational Education Fund	301,784	Special Education Fund	301,784
Capital Project Fund	<u>30,491</u>	General Fund	<u>30,491</u>
Total	<u>\$ 736,341</u>	Total	<u>\$ 736,341</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 9 - DEFERRED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
General Fund:	
Great Parents ISD 0-5	\$ 4,968
Eisenhower Rural Initiative Grant	4,345
Vocational Education Fund:	
Job Training Partnership Act	<u>62,143</u>
Total	<u>\$ 71,456</u>

NOTE 10 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Agency's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Agency for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2004, the Agency incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Vocational Education Fund:			
Transfers to local districts	\$ 0	\$ 78,157	\$ 78,157
Debt Service:			
Principal retirement	\$ 79,051	\$ 88,200	\$ 9,149
Bond issuance costs	\$ 652	\$ 670	\$ 18
Capital outlay	\$ 6,957	\$ 7,762	\$ 805
Special Education Fund:			
Debt Service:			
Principal retirement	\$ 69,392	\$ 71,535	\$ 2,143

NOTE 11 - RETIREMENT PLANS

Defined Benefit Plan

The Iosco Regional Educational Service Agency contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 11 - RETIREMENT PLANS (CONTINUED)

Funding Policy

Effective January 1, 1987, employees who were MPSERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

During the plan fiscal year 2003, employer contributions were 12.99% of covered compensation as agencies were responsible for the entire pension and health insurance contribution. The contribution requirements of plan members and Iosco Regional Educational Service Agency are established and may be amended by the MPSERS Board. The Agency's contributions to MPSERS for the years ending June 30, 2004, 2003 and 2002 were \$243,070, \$276,793 and \$239,935, respectively, equal to the required contributions for each year.

The MPSERS also provides for death and disability benefits which are established by state statute. Under the MPSERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPSERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The Agency offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program they must continue until completion of the purchase of the service credit or termination of employment from Iosco Regional Educational Service Agency. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$73,151 for the year ended June 30, 2004.

The Agency also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$53,440 for the year ended June 30, 2004. The assets of the plan are administered and held by various approved third party financial institutions.

NOTE 12 - RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Agency continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 13 - GOVERNMENTAL REGULATION

Substantially all of the Agency's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Agency expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the Agency. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 14 - CONTINGENCIES AND COMMITMENTS

The Agency participates in the Universal Service Fund Program (USF) and has received funds in the past fiscal years from this program. The USF has charged that the Agency did not meet the local match requirements. If it is determined that the USF funds were obtained inappropriately, then the Agency will be required to pay some or all of the funds back to the USF. The Agency believes the allegations are without merit and is vigorously defending its position. Preliminary findings show \$146,000 of disallowed costs, however, USF is still investigating findings. Final chargebacks, if any, have not been determined as of the date of this report.

The Agency is a defendant in a lawsuit filed by one of its former employees, for wrongful discharge. The suit proceeded through to advisory arbitration. The arbitrator ruled in favor of the employee and awarded back pay in an undisclosed amount. The matter is now before a Circuit Court judge. Outside counsel for the Agency has advised that at this stage in the proceedings they cannot offer an opinion as to the probable outcome. The Agency believes the suit is without merit and is vigorously defending its position.

NOTE 15 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Agency's financial position and operations. Some prior year balances have been reclassified to conform with current year presentation.

REQUIRED SUPPLEMENTAL INFORMATION

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2004

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local sources:				
Taxes	\$ 267,457	\$ 267,453	\$ 263,301	\$ (4,152)
Other	135,434	116,386	118,754	2,368
State sources	477,741	533,351	546,089	12,738
Federal sources	21,570	205,925	215,164	9,239
Total revenue	<u>902,202</u>	<u>1,123,115</u>	<u>1,143,308</u>	<u>20,193</u>
<u>Expenditures</u>				
Current:				
Instruction	15,695	5,000	3,842	1,158
Supporting services	768,594	997,986	932,121	65,865
Transfers to local districts	67,000	12,000	9,900	2,100
Debt Service:				
Principal retirement	16,292	25,150	19,104	6,046
Interest and fiscal charges	16,926	15,101	15,076	25
Capital outlay	17,695	45,819	44,662	1,157
Total expenditures	<u>902,202</u>	<u>1,101,056</u>	<u>1,024,705</u>	<u>76,351</u>
Excess of revenue over expenditures	<u>0</u>	<u>22,059</u>	<u>118,603</u>	<u>96,544</u>
Fund balances - beginning of year	<u>252,237</u>	<u>252,237</u>	<u>252,237</u>	<u>0</u>
Fund balances - end of year	<u>\$ 252,237</u>	<u>\$ 274,296</u>	<u>\$ 370,840</u>	<u>\$ 96,544</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 VOCATIONAL EDUCATION FUND
For the Year Ended June 30, 2004

	Vocational Education Fund			
	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local sources	\$ 693,500	\$ 633,356	\$ 654,334	\$ 20,978
State sources	191,332	197,692	200,907	3,215
Federal sources	204,201	176,394	181,220	4,826
Total revenue	<u>1,089,033</u>	<u>1,007,442</u>	<u>1,036,461</u>	<u>29,019</u>
<u>Expenditures</u>				
Current:				
Instruction	776,615	693,728	671,555	22,173
Supporting services	149,551	168,635	167,325	1,310
Transfers to local districts	0	0	78,157	(78,157)
Debt Service:				
Principal retirement	79,783	79,051	88,200	(9,149)
Interest and fiscal charges	75,412	77,598	77,571	27
Bond issuance costs	652	652	670	(18)
Capital outlay	<u>7,020</u>	<u>6,957</u>	<u>7,762</u>	<u>(805)</u>
Total expenditures	<u>1,089,033</u>	<u>1,026,621</u>	<u>1,091,240</u>	<u>(64,619)</u>
Excess of revenue over (under) expenditures	<u>0</u>	<u>(19,179)</u>	<u>(54,779)</u>	<u>(35,600)</u>
Fund balances - beginning of year	<u>204,957</u>	<u>204,957</u>	<u>204,957</u>	<u>0</u>
Fund balances - end of year	<u>\$ 204,957</u>	<u>\$ 185,778</u>	<u>\$ 150,178</u>	<u>\$ (35,600)</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL EDUCATION FUND
For the Year Ended June 30, 2004

	Special Education Fund			
	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local sources:				
Taxes	\$ 803,180	\$ 803,097	\$ 789,892	\$ (13,205)
Other	371,756	266,985	270,059	3,074
State sources	524,968	537,837	538,284	447
Federal sources	1,172,814	1,220,887	1,235,267	14,380
Total revenue	<u>2,872,718</u>	<u>2,828,806</u>	<u>2,833,502</u>	<u>4,696</u>
<u>Expenditures</u>				
Current:				
Instruction	1,210,348	1,167,589	1,149,882	17,707
Supporting services	1,159,778	1,082,873	1,045,957	36,916
Transfers to local districts	285,000	297,000	296,959	41
Community services	84,325	89,478	89,128	350
Debt Service:				
Principal retirement	62,584	69,392	71,535	(2,143)
Interest and fiscal charges	43,973	43,980	43,909	71
Bond issuance costs	1,112	1,507	1,459	48
Capital outlay	55,040	70,431	69,420	1,011
Total expenditures	<u>2,902,160</u>	<u>2,822,250</u>	<u>2,768,249</u>	<u>54,001</u>
Excess of revenue over (under) expenditures	(29,442)	6,556	65,253	58,697
<u>Other Financing Sources</u>				
Loan proceeds	<u>65,500</u>	<u>65,500</u>	<u>65,500</u>	<u>0</u>
Excess of revenue and other sources over expenditures	36,058	72,056	130,753	58,697
Fund balances - beginning of year	<u>223,316</u>	<u>223,316</u>	<u>223,316</u>	<u>0</u>
Fund balances - end of year	<u>\$ 259,374</u>	<u>\$ 295,372</u>	<u>\$ 354,069</u>	<u>\$ 58,697</u>

INDIVIDUAL FUND SCHEDULES

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF REVENUE
 For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Revenue</u>		
Local Sources:		
Current property tax levy	\$ 263,301	\$ 255,453
Sustained learning grant	0	615
Transportation training	68,084	64,722
Interest earned	4,892	5,124
Local sources other	13,841	33,831
Miscellaneous	31,937	22,369
	<u>382,055</u>	<u>382,114</u>
State Sources:		
State school aid	488,913	461,802
ORV safety training grant	5,016	8,819
Motorcycle safety grant	52,160	52,033
	<u>546,089</u>	<u>522,654</u>
Federal Sources:		
Title IIA Improving Teacher Quality	647	0
Title IVB	18,000	17,400
Title V	3,803	0
Goals 2000 grants	0	8,295
Eisenhower grant	0	6,312
Eisenhower rural initiative grant	14,499	8,751
Positive youth development project	178,215	76,085
	<u>215,164</u>	<u>116,843</u>
<u>Other Financing Sources</u>		
Loan proceeds	<u>0</u>	<u>6,452</u>
Total Revenue and Other Financing Sources	<u>\$ 1,143,308</u>	<u>\$ 1,028,063</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Instruction</u>		
Added Needs:		
Goals 2000:		
Supplies and materials:		
Supplies	\$ 0	\$ 8,295
Eisenhower Rural Initiative:		
Supplies and materials:		
Supplies	0	8,823
Other Added Needs:		
Purchased services:		
Workshop/conference	3,842	3,377
Contracted services	0	1,575
Supplies and materials:		
Supplies	0	2,355
	3,842	7,307
Total Instruction	3,842	24,425
<u>Supporting Services</u>		
Pupil Services:		
Attendance Services:		
Salaries	29,579	28,934
Employee benefits	12,128	11,964
Purchased services:		
Travel and expense	4,092	3,472
Supplies and materials:		
Supplies	1,019	511
	46,818	44,881
Instructional Staff:		
Gifted and Talented:		
Salaries	0	10,715
Purchased services:	0	10,715
Great Start ISD 0-5:		
Purchased services:		
Contracted services	6,337	0

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Supporting Services (Continued)</u>		
Instructional Staff: (Continued)		
Improvement of Instruction:		
Salaries	\$ 43,875	\$ 40,542
Employee benefits	16,437	21,390
Purchased services:		
Travel and expense	292	259
Workshop/conference	871	1,474
Contract services	168,247	79,049
Dues and fees	174	327
Supplies and materials:		
Supplies	174	2,142
	<u>230,070</u>	<u>145,183</u>
Transportation Training:		
Salaries	1,498	14,500
Employee benefits	386	2,161
Purchased services:		
Workshop/conference	5,085	569
Dues and fees	991	1,508
Vehicle maintenance	2,025	4,084
Supplies and materials:		
Supplies	59,349	54,745
	<u>69,334</u>	<u>77,567</u>
General Administration:		
Board of Education:		
Salaries	1,740	2,108
Purchased services:		
Legal	21,541	9,403
Audit and accounting	2,945	15,175
Travel and expense	2,543	2,255
Contract services	1,779	1,829
Advertising	1,315	1,988
Workshop/conference	790	1,331
Dues and fees	3,085	656
Supplies and materials:		
Supplies	3,128	4,823
	<u>38,866</u>	<u>39,568</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Supporting Services (Continued)</u>		
Superintendent's Office:		
Salaries	\$ 175,424	\$ 171,765
Employee benefits	45,310	47,288
Purchased services:		
Travel and expense	1,446	4,460
Periodicals	70	99
Workshop/conference	1,034	1,336
Dues and fees	5,171	6,526
Supplies and materials:		
Supplies	1,507	1,572
	<u>229,962</u>	<u>233,046</u>
Central Office Administration:		
Salaries	50,849	41,918
Employee benefits	23,416	28,822
Purchased services:		
Mailing	1,942	1,977
Advertising	1,146	925
Equipment rental	0	763
Automobile rental	0	390
Travel and expense	273	466
Insurance and bonds	3,329	4,690
Vehicle expense	294	838
Dues and fees	656	829
Workshop/conference	532	429
Taxes abated	151	56
Supplies and materials:		
Supplies	5,577	3,574
	<u>88,165</u>	<u>85,677</u>
Business Services:		
Fiscal Services:		
Salaries	12,325	14,125
Employee benefits	5,935	6,943
Purchased services:		
Travel and expense	99	139
Workshop/conference	112	226
Data processing	27,656	8,431
Dues and fees	81	81
Supplies and materials:		
Supplies	427	312
	<u>46,635</u>	<u>30,257</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Supporting Services (Continued)</u>		
Operation and Maintenance of Plant:		
Salaries	\$ 318	\$ 13,212
Employee benefits	1,440	5,636
Purchased services:		
Contracted services - repairs and maintenance	4,706	0
Travel and expense	207	90
Utilities:		
Electric	5,039	3,821
Heat	3,332	2,861
Telephone	1,934	5,209
Water and sewer	138	121
Maintenance:		
Building	2,129	1,525
Equipment	13,424	13
Supplies and materials:		
Custodial supplies	1,579	993
	<u>34,246</u>	<u>33,481</u>
Computer Technology:		
Salaries	2,567	924
Employee benefits	2,270	501
Purchased services:		
Workshop/conference	147	0
Dues and fees	10,000	0
	<u>14,984</u>	<u>1,425</u>
Transportation:		
Salaries	7,475	28,549
Employee benefits	6,736	16,732
Purchased services:		
Travel and expense	16,836	12,585
Contract services	73,732	39,592
Drug testing	10,593	10,960
Supplies and materials:		
Gas, oil and grease	447	2,114
Supplies	10,885	13,624
	<u>126,704</u>	<u>124,156</u>
Total Supporting Services	<u>932,121</u>	<u>825,956</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Outgoing Transfers</u>		
Gifted and Talented:		
Hale Area Schools	\$ 0	\$ 975
E.C.I.A. Title V Grant:		
Bay-Arenac ISD	9,900	9,390
Total Outgoing Transfers	9,900	10,365
<u>Debt Service</u>		
Principal retirement	19,104	98,453
Interest and fiscal charges	15,076	25,079
Total Debt Service	34,180	123,532
Capital Outlay	44,662	69,724
Total Expenditures and Operating Transfers	\$ 1,024,705	\$ 1,054,002

IOSCO REGIONAL EDUCATIONAL AGENCY
Iosco County, Michigan

VOCATIONAL EDUCATION FUND
 DETAILS OF REVENUE

For the Year Ended June 30, 2004

With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Revenue</u>		
Local Sources:		
Local other	\$ 630,048	\$ 650,423
Miscellaneous	24,286	1,641
	<u>654,334</u>	<u>652,064</u>
State Sources:		
Career prep improvement	0	323,898
Vocational education	158,892	167,962
Economic development job training grants	22,015	46,203
Michigan rehab services	20,000	25,000
	<u>200,907</u>	<u>563,063</u>
Federal Sources:		
Vocational education grants	97,136	102,884
Job Training Partnership Act	57,929	59,566
Tech prep	26,155	6,816
	<u>181,220</u>	<u>169,266</u>
Total Revenue	<u>\$ 1,036,461</u>	<u>\$ 1,384,393</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

VOCATIONAL EDUCATION FUND
DETAILS OF EXPENDITURES
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Instruction</u>		
Added Needs:		
Vocational Education:		
Salaries	\$ 292,459	\$ 335,099
Employee benefits	200,257	179,312
Purchased services:		
Travel and expense	488	582
Workshop/conference	1,043	113
Contract services	72,004	102,267
Dues and fees	898	593
Other	19,487	17,486
Supplies and materials:		
Supplies	46,259	60,967
	<u>632,895</u>	<u>696,419</u>
 Instructional Staff:		
Health Occupations:		
Salaries	25,362	55,161
Employee benefits	10,932	18,134
Purchased services:		
Travel and expense	68	198
Contract services	873	1,049
Dues and fees	0	77
Supplies and materials:		
Supplies	1,425	844
	<u>38,660</u>	<u>75,463</u>
 Total Instruction	<u>671,555</u>	<u>771,882</u>
 <u>Supporting Services</u>		
School Administration:		
Salaries:		
Tech center administrator	30,615	4,332
Secretary	12,312	13,239
Employee benefits	23,247	18,632
Purchased services:		
Travel and expense	623	530
Postage and mailing	1,947	868
Advertising	1,673	52
Workshop/conference	122	1,239
Equipment rental	285	3,166
Insurance	841	0
Utilities	67	0

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

VOCATIONAL EDUCATION FUND
 DETAILS OF EXPENDITURES
 For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Supporting Services (Continued)</u>		
School Administration: (Continued)		
Supplies and materials:		
Supplies	\$ 3,575	\$ 4,638
	<u>75,307</u>	<u>46,696</u>
Central Services:		
Operation of Plant:		
Purchased services:		
Telephone	6,195	8,875
Water	849	319
Heating	9,247	14,664
Electricity	16,473	17,688
Maintenance and repairs-building	<u>59,254</u>	<u>7,242</u>
	<u>92,018</u>	<u>48,788</u>
Total Supporting Services	<u>167,325</u>	<u>95,484</u>
<u>Outgoing Transfers</u>		
Vocational Education		
Hale Area Schools	6,561	8,021
Oscoda Area Schools	38,419	39,136
Tawas Area Schools	31,908	44,110
Whittemore Prescott Area Schools	1,269	883
COOR ISD	0	129,534
Clare-Gladwin ISD	<u>0</u>	<u>119,818</u>
Total Outgoing Transfers	<u>78,157</u>	<u>341,502</u>
<u>Debt Service</u>		
Principal retirement	88,200	58,800
Interest and fiscal charges	77,571	118,443
Bond issuance costs	<u>670</u>	<u>0</u>
	<u>166,441</u>	<u>177,243</u>
<u>Capital Outlay</u>		
Furniture and equipment	<u>7,762</u>	<u>60,025</u>
Total Expenditures	<u>\$ 1,091,240</u>	<u>\$ 1,446,136</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF REVENUE

For the Year Ended June 30, 2004

With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Revenue</u>		
Local Sources:		
Current property tax levy	\$ 789,892	\$ 766,362
Local medicaid fees	255,498	364,585
Interest earned	1,289	1,364
Local other	7,086	11,555
Miscellaneous	1,419	1,405
Private sources	4,767	1,079
	<u>1,059,951</u>	<u>1,146,350</u>
State Sources:		
State school aid	534,097	520,764
State initiated competitive grant	4,187	0
	<u>538,284</u>	<u>520,764</u>
Federal Sources:		
P.L. 94-142 grants	46,582	47,159
State initiated competitive grant	35,000	28,509
State initiated department grants	84,553	75,722
State initiated TMT	6,822	0
Infant/toddler grant	89,058	82,914
Medicaid claims	3,927	10,303
Flow through grants	968,111	824,651
National school lunch program	1,214	0
	<u>1,235,267</u>	<u>1,069,258</u>
<u>Other Financing Sources</u>		
Loan proceeds	65,500	25,806
Total Revenue and Other Financing Sources	<u>\$ 2,899,002</u>	<u>\$ 2,762,178</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
DETAILS OF EXPENDITURES
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Instruction</u>		
Added Needs:		
Moderate Cognitive Impairment:		
Salaries	\$ 340,131	\$ 371,708
Employee benefits	222,082	196,283
Purchased services:		
Contracted services	26,715	0
Travel and expense	13,940	7,213
Workshop/conference	668	696
Supplies and materials:		
Supplies	27,577	20,148
	<u>631,113</u>	<u>596,048</u>
Severe Cognitive Impairment:		
Salaries	132,807	156,822
Employee benefits	60,266	66,766
Field trip	250	49
Purchased services:		
Contracted services	15,305	0
Travel and expense	1,469	1,440
Workshop/conference	2,642	160
Supplies and materials:		
Supplies	6,517	4,499
	<u>219,256</u>	<u>229,736</u>
Preschool IMC Health Services:		
Salaries	33,966	33,722
Employee benefits	10,791	15,344
Supplies	0	205
	<u>44,757</u>	<u>49,271</u>
LRE Classroom Instructional Aide:		
Salaries	18,062	0
Purchased services:		
Contracted services	7	23
	<u>18,069</u>	<u>23</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
DETAILS OF EXPENDITURES
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	<u>2004 Actual</u>	<u>2003 Actual</u>
<u>Instruction (Continued)</u>		
Added Needs: (Continued)		
Hearing Impaired Program:		
Salaries	\$ 118,050	\$ 116,304
Employee benefits	66,099	62,513
Purchased services:		
Travel and expense	12	0
Workshop/conference	60	0
Supplies and materials:		
Teaching supplies	263	111
Repairs and maintenance	0	701
	<u>184,484</u>	<u>179,629</u>
 Visually Impaired/POHI Programs:		
Salaries	34,498	59,107
Employee benefits	14,549	25,851
Purchased services:		
Travel and expense	2,077	2,196
Workshop/conference	260	270
Supplies and materials:		
Supplies	819	1,043
	<u>52,203</u>	<u>88,467</u>
 Total Instruction	<u>1,149,882</u>	<u>1,143,174</u>
 <u>Supporting Services</u>		
Pupil Services:		
Occupational Therapy Program:		
Salaries	61,252	58,904
Employee benefits	39,143	27,604
Purchased services:		
Travel and expense	3,948	3,601
Workshop/conference	165	723
Supplies and materials:		
Supplies	629	2,914
	<u>105,137</u>	<u>93,746</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF EXPENDITURES
 For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Supporting Services (Continued)</u>		
School Administration:		
Director of Special Education:		
Salaries	\$ 72,705	\$ 72,705
Employee benefits	30,361	31,413
Purchased services:		
Contracted services	28,473	36,559
Travel and expense	2,357	1,281
Workshop/conference	237	860
Tuition	0	0
Supplies and materials:		
Supplies	45	596
	<u>134,178</u>	<u>143,414</u>
General Administration:		
Central Office:		
Purchased services:		
Audit	11,780	0
Mailing	2,008	3,392
Advertising	2,021	1,614
Building rent	18,240	27,491
Media van	0	5,020
Equipment rental	0	3,038
Vehicle rental	0	1,560
Insurance	10,140	10,869
Dues and fees	22,354	19,279
Taxes abated	494	223
Supplies and materials:		
Gas, oil and grease	104	57
Supplies	4,740	16,548
Repairs and maintenance	1,092	2,122
	<u>72,973</u>	<u>91,213</u>
Business:		
Fiscal Services:		
Salaries	56,500	54,500
Employee benefit	24,869	23,868
Purchased services:		
Data processing	3,341	10,339
Travel and expense	487	541
Workshop/conference	528	904
Dues and fees	324	324

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
DETAILS OF EXPENDITURES
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Supporting Services (Continued)</u>		
Business: (Continued)		
Fiscal Services: (Continued)		
Supplies and materials:		
Supplies	\$ 1,518	\$ 333
	<u>87,567</u>	<u>90,809</u>
Staff Secretary:		
Salaries	27,310	24,843
Employee benefits	19,526	17,572
Purchased services:		
Travel and expense	17	19
	<u>46,853</u>	<u>42,434</u>
Operating and Maintenance:		
Salaries	1,271	35,916
Employee benefits	1,184	17,147
Purchased services:		
Contracted services - repairs and maintenance	13,703	0
Utilities:		
Electrical	8,514	9,491
Heating	5,535	8,978
Telephone	6,117	17,645
Waste removal	1,039	938
Maintenance:		
Building	5,130	2,784
Equipment	5,079	0
Travel and expense	726	276
Supplies and materials:		
Supplies	2,161	2,758
	<u>50,459</u>	<u>95,933</u>
Computer Technology:		
Salaries	10,268	3,698
Employee benefits	7,574	2,004
Purchased services:		
Workshop/conference	379	0
	<u>18,221</u>	<u>5,702</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

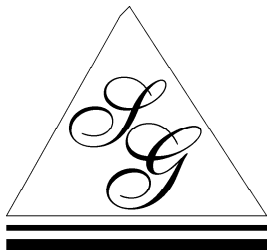
SPECIAL EDUCATION FUND
DETAILS OF EXPENDITURES
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004 Actual	2003 Actual
<u>Supporting Services (Continued)</u>		
Transportation:		
Salaries	\$ 286,799	\$ 258,710
Employee benefits	126,077	115,731
Purchased services:		
Pupil transportation/private auto	4,149	4,163
Telephone	3,419	3,031
Insurance	4,610	6,340
Travel and expense	71	2,318
Repairs	44,832	31,693
Workshop/conference	370	2,051
Supplies and materials:		
Gas, oil and grease	24,919	25,716
Supplies	1,660	2,104
	<u>496,906</u>	<u>451,857</u>
ISD Planner/Monitor:		
Purchased services:		
Contracted services	26,502	21,789
Travel and expense	2,070	731
Workshop/conference	2,548	1,462
Dues and fees	35	0
Supplies and materials:		
Supplies	2,508	7,423
	<u>33,663</u>	<u>31,405</u>
Total Supporting Services	<u>1,045,957</u>	<u>1,046,513</u>
<u>Outgoing Transfers</u>		
Medicaid Transfers:		
Hale Area Schools	60,133	24,915
Oscoda Area Schools	90,716	138,657
Tawas Area Schools	57,899	35,388
Whittemore-Prescott Area Schools	88,211	23,170
Sunrise Education Center	0	56
Total Outgoing Transfers	<u>296,959</u>	<u>222,186</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
DETAILS OF EXPENDITURES
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	<u>2004 Actual</u>	<u>2003 Actual</u>
<u>Community Services</u>		
Early Intervention Services:		
Salaries	\$ 3,091	\$ 838
Employee benefits	1,110	402
Purchased services:		
Contracted services	83,781	74,578
Workshop/conference	0	3,259
Supplies and materials:		
Supplies	<u>1,146</u>	<u>1,214</u>
Total Community Services	<u>89,128</u>	<u>80,291</u>
 <u>Debt Service</u>		
Principal retirement	71,535	35,678
Interest and fiscal charges	43,909	64,208
Bond issuance costs	<u>1,459</u>	<u>0</u>
Total Debt Service	<u>116,903</u>	<u>99,886</u>
 <u>Capital Outlay</u>		
Vehicles	65,500	0
Furniture and equipment	0	40,485
Buildings and additions	<u>3,920</u>	<u>1,864</u>
Total Capital Outlay	<u>69,420</u>	<u>42,349</u>
Total Expenditures	<u>\$ 2,768,249</u>	<u>\$ 2,634,399</u>



Stephenson Gracik & Co., P.C.

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

August 12, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency, Iosco County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated August 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

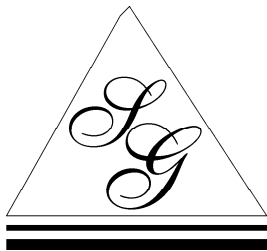
As part of obtaining reasonable assurance about whether Iosco Regional Educational Service Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted other matters involving the internal control financial reporting that we have reported to management of Iosco Regional Educational Service Agency, in a separate letter dated August 12, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Iosco Regional Educational Service Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Iosco Regional Educational Service Agency, in a separate letter dated August 12, 2004.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



Stephenson Gracik & Co., P.C.

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August 12, 2004

To the Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the Iosco Regional Educational Service Agency for the year ended June 30, 2004, and have issued our report thereon dated August 12, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated May 14, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Agency's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Agency's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Agency's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Agency are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the Agency changed accounting policies related to a new financial reporting model by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 33, 34, 36, 37 and 38 and GASB Interpretation No. 6 in the year ended June 30, 2004. We noted no transactions entered into by the Agency during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Agency's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Agency, either individually or in the aggregate, indicate matters that could have a significant effect on the Agency's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our tests of compliance and internal controls as described in the preceding paragraphs, several matters came to our attention upon which we would like to comment:

Budget Control

We noted that the Agency's Vocational Education and Special Education Funds included expenditures in some functions that exceeded appropriated amounts. We recommend that the Board continue to amend the budgets for all funds periodically as needed and take into consideration recurring year end audit adjustments.

Chart of Accounts

We noted that the Agency's chart of accounts was not in compliance with the Michigan Department of Education's chart of accounts. We recommend that the Agency update their account structure to be in compliance.

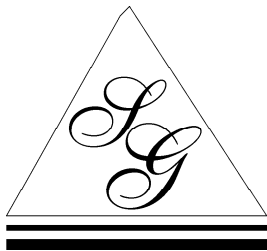
Due From/To Accounts

While reviewing the due to/from accounts it was noted that all cash activity is posted to one fund and not split to the appropriate fund during the year. We recommend that all cash activity be allocated, on a regular basis, to the appropriate funds so that the individual funds will be in balance.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Agency.

This information is intended solely for the use of the Agency, Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grault & Co., P.C.



Stephenson Gracik & Co., P.C.

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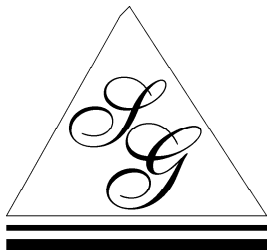
Herman A Bertuleit, CPA

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED JUNE 30, 2004

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Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

August 12, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of the Iosco Regional Educational Service Agency as of and for the year ended June 30, 2004, which collectively comprise the Iosco Regional Educational Service Agency's basic financial statements and have issued our report thereon dated August 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

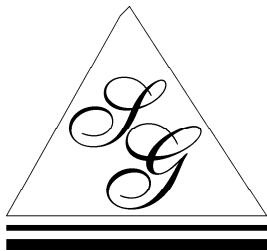
As part of obtaining reasonable assurance about whether the Iosco Regional Educational Service Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Iosco Regional Educational Service Agency in a separate letter dated August 12, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iosco Regional Educational Service Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Iosco Regional Educational Service Agency in a separate letter dated August 12, 2004.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



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August 12, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

Compliance

We have audited the compliance of the Iosco Regional Educational Service Agency with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Iosco Regional Educational Service Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Iosco Regional Educational Service Agency's management. Our responsibility is to express an opinion on the Iosco Regional Educational Service Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Iosco Regional Educational Service Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Iosco Regional Educational Service Agency's compliance with those requirements.

In our opinion, the Iosco Regional Educational Service Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Iosco Regional Educational Service Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Iosco Regional Educational Service Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

- 2 -

Board of Education
losco Regional Educational Service Agency
August 12, 2004
Page Two

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the losco Regional Educational Service Agency as of and for the year ended June 30, 2004, and have issued our report thereon dated August 12, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the losco Regional Educational Service Agency's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grainh & Co., P.C.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2004

03-1

Accounting System

The current year fund balance amounts were not in agreement with the prior audited fund balance amounts. We posted several adjustments to correct the fund balance accounts. We recommend that the fund balance amounts be reviewed each year after the audit adjustments have been posted to ensure they are in agreement with the audited fund balance figures.

Current Status:

These items were completed by the Business Manager in the year ended June 30, 2004.

03-2

Accounting System

While performing the cash receipts test of transactions, we found that the driver's test and motorcycle safety money was reported in a lump sum by the department head, without documentation of individual check or cash amounts. We found that three off-site cash receipts books exist, one for the transportation director, the driving test teacher and a third at the Oscoda location. We recommend that all receipts for these services be reconciled to the off-site cash receipt records monthly, or that all receipts be accepted, either by mail, or in person at the Rempert Road office

Current Status:

These items were corrected by the Business manager in the year ended June 30, 2004.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

Summary of Auditors' Results

- (1) The auditors' report expresses an unqualified opinion on the financial statements of Iosco Regional Educational Service Agency.
- (2) No reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of Iosco Regional Educational Service Agency, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No reportable conditions relating to the audit of the major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for the Iosco Regional Educational Service Agency expresses an unqualified opinion.
- (6) No audit findings relative to the major federal award programs for Iosco Regional Educational Service Agency are reported in this schedule.
- (7) The programs tested as a major program was: Special Education Cluster, CFDA #84.027 and 84.173.
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) Iosco Regional Educational Service Agency was not determined to be a low-risk auditee.

Findings - Financial Statements Audit

There were no findings related to the financial statement audit for the year ending June 30, 2004.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award programs audit for the year ending June 30, 2004.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2003	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2004	Adjustments
<u>U.S. Department of Labor</u>								
Passed through Region 7B Employment and Training Consortium:								
Job Partnership Training Act:	17.250							
Title IIIB School to Work								
Adult Learning Services		\$ 106,396	\$ 54,162	\$ (12,328)	\$ 12,328	\$ 0	\$ 0	\$ 0
Adult Learning Services		60,046	5,404	(54,642)	41,092	0	(13,550)	0
Adult Learning Services		<u>53,103</u>	<u>0</u>	<u>0</u>	<u>4,509</u>	<u>53,103</u>	<u>(48,594)</u>	<u>0</u>
Total U.S. Department of Labor		<u>219,545</u>	<u>59,566</u>	<u>(66,970)</u>	<u>57,929</u>	<u>53,103</u>	<u>(62,144)</u>	<u>0</u>
<u>U.S. Department of Education</u>								
Small Rural School Achievement Program S358A023739	84.358A	15,100	8,751	8,751	6,349	15,100	0	0
Small Rural School Achievement Program S358A033739		<u>17,674</u>	<u>0</u>	<u>0</u>	<u>8,150</u>	<u>12,495</u>	<u>(4,345)</u>	<u>0</u>
		<u>32,774</u>	<u>8,751</u>	<u>8,751</u>	<u>14,499</u>	<u>27,595</u>	<u>(4,345)</u>	<u>0</u>
Passed through Michigan Department of Education:								
National School Lunch Program:	10.555							
National School Lunch Section 4 Lunches		132	0	0	132	132	0	0
National School Lunch Section 11 Free & Reduced		<u>1,082</u>	<u>0</u>	<u>0</u>	<u>1,082</u>	<u>1,082</u>	<u>0</u>	<u>0</u>
		<u>1,214</u>	<u>0</u>	<u>0</u>	<u>1,214</u>	<u>1,214</u>	<u>0</u>	<u>0</u>
Special Education Cluster:								
Passed through Michigan Department of Education:								
Handicapped and Preschool Programs:	84.027							
PL 94-142 Flow Through 01045026		583,197	0	0	(1,303)	0	0	1,303 (4)
PL 94-142 Flow Through 02045026		695	0	0	695	695	0	0
PL 94-142 Flow Through 030450 0203		824,651	824,651	4,633	0	4,633	0	0
PL 94-142 Flow Through 030450 0203C		44,319	0	0	44,319	44,319	0	0
PL 94-142 Flow Through 040450 0304		955,867	0	0	924,400	792,405	131,995	0
State Initiated Competitive 030480 EOSD		32,684	32,685	8,786	0	8,785	0	(1) (4)
State Initiated Competitive 040480 EOSD		35,000	0	0	35,000	35,000	0	0
Special Education - State Initiated 040490 CB		18,062	0	0	18,062	18,062	0	0
Special Education - State Initiated 030490 TS		57,213	50,722	11,334	6,491	17,825	0	0
Special Education - State Initiated 040490 TS		<u>60,000</u>	<u>0</u>	<u>0</u>	<u>60,000</u>	<u>60,000</u>	<u>0</u>	<u>0</u>
		<u>2,611,688</u>	<u>908,058</u>	<u>24,753</u>	<u>1,087,664</u>	<u>981,724</u>	<u>131,995</u>	<u>1,302</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2003	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2004	Adjustments
<u>U.S. Department of Education (Continued)</u>								
Special Education Cluster: (Continued)								
Passed through Bay Arenac Intermediate School District:								
TMT Grant 03-0480	84.027	\$ 3,725	\$ 0	\$ 0	\$ 3,725	\$ 3,725	\$ 0	\$ 0
TMT Grant 04-0480		3,097	0	0	3,097	0	3,097	0
		<u>6,822</u>	<u>0</u>	<u>0</u>	<u>6,822</u>	<u>3,725</u>	<u>3,097</u>	<u>0</u>
Passed through Michigan Department of Education:								
Special Education - Preschool Grants:								
PL 94-142 Preschool Incentive 040460 0304	84.173	46,582	0	0	46,582	46,582	0	0
Total Special Education Cluster		<u>2,665,092</u>	<u>908,058</u>	<u>24,753</u>	<u>1,141,068</u>	<u>1,032,031</u>	<u>135,092</u>	<u>1,302</u>
Passed through the Crawford Oscoda Ogemaw Roscommon Intermediate School District:								
Perkins Grant :	84.048							
Voc Ed Tech Prep 942-18		14,350	6,816	0	7,534	7,534	0	0
Voc Ed Tech Prep 942-18		18,621	0	0	18,621	18,621	0	0
		<u>32,971</u>	<u>6,816</u>	<u>0</u>	<u>26,155</u>	<u>26,155</u>	<u>0</u>	<u>0</u>
Passed through Clare Gladwin Educational Service District:								
Perkins Grant	84.048	102,884	102,884	38,190	0	38,190	0	0
Perkins Grant		97,136	0	0	97,136	97,136	0	0
		<u>200,020</u>	<u>102,884</u>	<u>38,190</u>	<u>97,136</u>	<u>135,326</u>	<u>0</u>	<u>0</u>
Passed through Michigan Department of Education:								
Special Education - Grants for Infants and Toddlers:								
Formula Grant:								
Infant and Toddler 031340 190	84.181A	82,914	82,914	2,596	0	2,596	0	0
Infant and Toddler 041340 190		89,058	0	0	89,058	84,595	4,463	0
		<u>171,972</u>	<u>82,914</u>	<u>2,596</u>	<u>89,058</u>	<u>87,191</u>	<u>4,463</u>	<u>0</u>
Passed through Michigan Department of Education:								
Title V LEA Allocation:								
Title V LEA Allocation 030250 0203	84.298	1,848	0	0	1,848	1,848	0	0
Title V LEA Allocation 040250 0304		1,955	0	0	1,955	0	1,955	0
		<u>3,803</u>	<u>0</u>	<u>0</u>	<u>3,803</u>	<u>1,848</u>	<u>1,955</u>	<u>0</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

<u>Federal Grantor or Pass Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2003</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2004</u>	<u>Adjustments</u>
<u>U.S. Department of Education (Continued)</u>								
Passed through Michigan Department of Education: Improving Teacher Quality:	84.367							
Title IIA, Teacher Quality Form 030520 0203		\$ 322	\$ 0	\$ 0	\$ 322	\$ 322	\$ 0	\$ 0
Title IIA, Teacher Quality Form 040520 0304		<u>325</u>	<u>0</u>	<u>0</u>	<u>325</u>	<u>0</u>	<u>325</u>	<u>0</u>
		<u>647</u>	<u>0</u>	<u>0</u>	<u>647</u>	<u>322</u>	<u>325</u>	<u>0</u>
Total U.S. Department of Education		<u>3,108,493</u>	<u>1,109,423</u>	<u>74,290</u>	<u>1,373,580</u>	<u>1,311,682</u>	<u>137,490</u>	<u>1,302</u>
<u>U.S. Department of Health and Human Services</u>								
Passed through the Substance Abuse and Mental Health Services Administration:								
Iosco County Positive Youth Development Project SM54997-01	93.243	200,000	76,085	38,424	63,195	101,619	0	0
Iosco County Positive Youth Development Project sm54997-02		<u>200,000</u>	<u>0</u>	<u>0</u>	<u>115,020</u>	<u>102,226</u>	<u>12,794</u>	<u>0</u>
		<u>400,000</u>	<u>76,085</u>	<u>38,424</u>	<u>178,215</u>	<u>203,845</u>	<u>12,794</u>	<u>0</u>
Passed through Family Independence Agency:								
Title IVB, Subpart 2 - Family Preservation and Support Services:	93.556							
SFSC-03-35003		18,000	16,200	1,800	1,800	3,600	0	0
SFSC-03-35003-2		<u>19,490</u>	<u>0</u>	<u>0</u>	<u>16,200</u>	<u>14,400</u>	<u>1,800</u>	<u>0</u>
		<u>37,490</u>	<u>16,200</u>	<u>1,800</u>	<u>18,000</u>	<u>18,000</u>	<u>1,800</u>	<u>0</u>
Passed through Michigan Department of Education:								
Title XIX Medical Assistance Program:								
Medicaid Outreach Claims:								
Transportation Claims	93.778	<u>0</u>	<u>0</u>	<u>1,885</u>	<u>3,927</u>	<u>5,633</u>	<u>179</u>	<u>0</u>
Total U.S. Department of Health and Human Services		<u>437,490</u>	<u>92,285</u>	<u>42,109</u>	<u>200,142</u>	<u>227,478</u>	<u>14,773</u>	<u>0</u>
Total Federal Awards		<u>\$ 3,765,528</u>	<u>\$ 1,261,274</u>	<u>\$ 49,429</u>	<u>\$ 1,631,651</u>	<u>\$ 1,592,263</u>	<u>\$ 90,119</u>	<u>\$ 1,302</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the general purpose financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
4. The following adjustments were made to the Schedule of Expenditures:

The PL 94-142 Flow Through 01045026 grant was audited by the Michigan Department of Education and \$1,303 was required to be paid back to the State for this audit.

The amount received on the State Initiated Competitive 030480 EOSD grant decreased by \$1 from the amount reported on the June 30, 2003 Schedule of Expenditures of Federal Awards.

5. Reconciliation to financial statements:

General Fund	\$ 215,164
Vocational Education	181,220
Special Education	<u>1,235,267</u>
Federal revenues per financial statements and schedule of expenditures of federal awards	<u>\$ 1,631,651</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 PROVIDED TO SUBRECIPIENTS
For the Year Ended June 30, 2004

<u>Federal Program Title/Subrecipient</u>	<u>Project Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Amount</u>	<u>Prior Year Subrecipient Federal Expenditures</u>	<u>Due to Subrecipient July 1, 2003</u>	<u>Current Year Transfer to Subrecipient</u>	<u>Current Year Subrecipient Federal Expenditures</u>	<u>Due to Subrecipient June 30, 2004</u>
Infant and Toddlers - (Part H):								
AuSable Valley Community Mental Health Services Board, Inc.	031340190	84.181	\$ 65,638	\$ 0	\$ 0	\$ 65,638	\$ 65,638	\$ 0
IDEA Flowthrough 2003-2004		84.027						
Hale Area Schools			30,000	0	0	30,000	30,000	0
Oscoda Area Schools			30,000	0	0	30,000	30,000	0
Tawas Area Schools			30,000	0	0	30,000	30,000	0
Whittemore-Prescott Area Schools			30,000	0	0	30,000	30,000	0
			<u>120,000</u>	<u>0</u>	<u>0</u>	<u>120,000</u>	<u>120,000</u>	<u>0</u>
Title XIX Medical Assistance Program:								
Medicaid Outreach Claims:		93.778	N/A					
Transportation Claims:								
Oscoda Area Schools				0	102	662	560	0
Tawas Area Schools				0	57	407	350	0
Whittemore-Prescott Area Schools				0	0	1,348	1,348	0
				<u>0</u>	<u>159</u>	<u>2,417</u>	<u>2,258</u>	<u>0</u>
Total Federal Awards Provided to Subrecipients			\$ 185,638	\$ 0	\$ 159	\$ 188,055	\$ 187,896	\$ 0

FORM **SF-SAC**
(5-2004)U.S. DEPT. OF COMM.—Econ. and Stat. Admin.—U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132**GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)****1. Fiscal period ending date for this submission**Month Day Year
06 / 30 / 2004Fiscal Period End Dates Must
Be In 2004, 2005, or 2006**2. Type of Circular A-133 audit**1 ☒ Single audit 2 ☐ Program-specific audit**3. Audit period covered**1 ☒ Annual 2 ☐ Biennial 3 ☐ Other — Months**4. FEDERAL
GOVERNMENT
USE ONLY**Date received by
Federal clearinghouse**5. Auditee Identification Numbers****a. Primary Employer Identification Number (EIN)**

3 8 — 1 7 1 7 4 6 0

b. Are multiple EINs covered in this report? 1 ☐ Yes 2 ☒ No**c. If Part I, Item 5b = "Yes," complete Part I, Item 5c
on the continuation sheet on Page 4.****d. Data Universal Numbering System (DUNS) Number** — — **e. Are multiple DUNS covered in this report?** 1 ☐ Yes 2 ☐ No**f. If Part I, Item 5e = "Yes," complete Part I, Item 5f
on the continuation sheet on Page 4.****6. AUDITEE INFORMATION****a. Auditee name**

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY

b. Auditee address (Number and street)

27 N REMPERT ROAD

City

TAWAS CITY

State

MI

ZIP + 4 Code

4 8 7 6 3 —

c. Auditee contact

Name

RON STEC

Title

BUSINESS MANAGER

d. Auditee contact telephone

(989) 362 — 3006

e. Auditee contact FAX

(989) 362 — 9076

f. Auditee contact E-mail**7. AUDITOR INFORMATION (To be completed by auditor)****a. Auditor name**

STEPHENSON, GRACIK & CO., P.C.

b. Auditor address (Number and street)

325 NEWMAN ST., PO BOX 592

City

EAST TAWAS

State

MI

ZIP + 4 Code

4 8 7 3 0 —

c. Auditor contact

Name

DONALD W. BRANNAN, CPA

Title

PARTNER

d. Auditor contact telephone

(989) 362 — 4491

e. Auditor contact FAX

(989) 362 — 8351

f. Auditor contact E-mail**g. AUDITEE CERTIFICATION STATEMENT** — This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.Signature of certifying official Date
Month Day Year
/ /

Printed Name of certifying official

Printed Title of certifying official

9. AUDITOR STATEMENT — The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.Signature of auditor Date
Month Day Year
/ /

FINANCIAL STATEMENTS (To be completed by auditor)**1. Type of audit report**

Mark either:

1 ☒ Unqualified opinion **OR**any combination of: 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion**2. Is a "going concern" explanatory paragraph included in the audit report?**1 ☐ Yes 2 ☒ No**3. Is a reportable condition disclosed?**1 ☐ Yes 2 ☒ No – SKIP to Item 5**4. Is any reportable condition reported as a material weakness?**1 ☐ Yes 2 ☐ No**5. Is a material noncompliance disclosed?**1 ☐ Yes 2 ☒ No**FEDERAL PROGRAMS (To be completed by auditor)****1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12)**1 ☐ Yes 2 ☒ No**2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § ____ .520(b))**

\$ 300,000

3. Did the auditee qualify as a low-risk auditee? (§ ____ .530)1 ☐ Yes 2 ☒ No**4. Is a reportable condition disclosed for any major program? (§ ____ .510(a)(1))**1 ☐ Yes 2 ☒ No –SKIP to Item 6**5. Is any reportable condition reported as a material weakness? (§ ____ .510(a)(1))**1 ☐ Yes 2 ☐ No**6. Are any known questioned costs reported? (§ ____ .510(a)(3) or (4))**1 ☐ Yes 2 ☒ No**7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ ____ .315(b))**1 ☐ Yes 2 ☒ No**8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)**98 ☐ U.S. Agency for International Development83 ☐ Federal Emergency Management Agency43 ☐ National Aeronautics and Space Administration96 ☐ Social Security Administration10 ☐ Agriculture39 ☐ General Services Administration89 ☐ National Archives and Records Administration19 ☐ U.S. Department of State23 ☐ Appalachian Regional Commission93 ☐ Health and Human Services05 ☐ National Endowment for the Arts20 ☐ Transportation11 ☐ Commerce97 ☐ Homeland Security06 ☐ National Endowment for the Humanities21 ☐ Treasury94 ☐ Corporation for National and Community Service03 ☐ Institute of Museum and Library Services47 ☐ National Science Foundation82 ☐ United States Information Agency12 ☐ Defense15 ☐ Interior07 ☐ Office of National Drug Control Policy64 ☐ Veterans Affairs84 ☐ Education16 ☐ Justice09 ☐ Small Business Administration00 ☒ None
☐ Other – Specify:81 ☐ Energy17 ☐ Labor66 ☐ Environmental Protection Agency09 ☐ Legal Services Corporation

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives ☒
- and, if not marked above, the Federal cognizant agency ☐

Count total number of boxes marked above and submit this number of reporting packages

1

PART III**FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS					
Federal Agency Prefix ¹	CFDA Number Extension ²	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)	If yes, type of audit report ³ (h)	Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
1 7	.250	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE IIIB SCHOOL TO WORK	\$ 57,929 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.358A	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SMALL RURAL SCHOOL ACHIEVEMENT PROGRAM	\$ 14,499 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0	.555	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NATIONAL SCHOOL LUNCH PROGRAM	\$ 1,214 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.027	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL EDUCATION CLUSTER	\$ 1,094,486 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
8 4	.173	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL EDUCATION - PRESCHOOL GRANTS	\$ 46,582 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
8 4	.048	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PERKINS GRANT	\$ 123,291 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.181A	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL EDUCATION - GRANTS FOR INFANTS AND TODDLERS	\$ 89,058 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.298	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE V LEA ALLOCATION	\$ 3,803 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.367	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE IIA, IMPROVING TEACHER QUALITY	\$ 647 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 3	.243	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	IOSCO COUNTY POSITIVE YOUTH DEVELOPMENT PROJECTS	\$ 178,215 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
TOTAL FEDERAL AWARDS EXPENDED				\$ 1,631,651 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)³ If major program is marked "Yes," enter only one letter (**U** = Unqualified opinion, **Q** = Qualified opinion, **A** = Adverse opinion, **D** = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

A. Activities allowed or unallowed
 B. Allowable costs/cost principles
 C. Cash management
 D. Davis - Bacon Act
⁵ N/A for NONE

E. Eligibility
 F. Equipment and real property management
 G. Matching, level of effort, earmarking
 H. Period of availability of Federal funds

I. Procurement and suspension and debarment
 J. Program income
 K. Real property acquisition and relocation assistance

L. Reporting
 M. Subrecipient monitoring
 N. Special tests and provisions
 O. None
 P. Other

PART III**FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS					
Federal Agency Prefix ¹ (a)	CFDA Number Extension ² (b)	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
						Major program (g)	If yes, type of audit report ³ (h)		
9 3	.556	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE IVB, SUBPART 2 FAMILY PRESERVATION AND SUPPORT SERVICES	\$ 18,000 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 3	.778	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE XIX MEDICAID OUTREACH CLAIMS - TRANSPORTATION	\$ 3,927 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
TOTAL FEDERAL AWARDS EXPENDED				\$ 1,631,651 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

A. Activities allowed or unallowed
 B. Allowable costs/cost principles
 C. Cash management
 D. Davis - Bacon Act
⁵ N/A for NONE

E. Eligibility
 F. Equipment and real property management
 G. Matching, level of effort, earmarking
 H. Period of availability of Federal funds

I. Procurement and suspension and debarment
 J. Program income
 K. Real property acquisition and relocation assistance

L. Reporting
 M. Subrecipient monitoring
 N. Special tests and provisions
 O. None
 P. Other

